

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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THE CALIFORNIA EXPOSITION AND STATE FAIR  
IS FISCALLY INDEPENDENT  
BUT CAN STILL IMPROVE ITS  
FINANCIAL CONDITION AND MANAGEMENT CONTROLS

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F-828

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FINANCIAL CONDITION AND MANAGEMENT CONTROLS

APRIL 1989



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Acting Auditor General

April 17, 1989

F-828

Honorable Elihu M. Harris, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 2148  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the operations of the California Exposition and State Fair (Cal Expo). This report indicates that Cal Expo has been fiscally independent from the State's General Fund for the last two fiscal years, but that Cal Expo must continue to work to remain fiscally independent. The report also indicates that Cal Expo still needs to complete approximately \$4.3 million of required deferred maintenance and repair projects, has not completed a detailed marketing plan to promote the use of its facilities between state fairs, and prepared inaccurate year-end financial statements.

We conducted this audit to comply with Chapter 8, Statutes of 1986.

Respectfully submitted,

A handwritten signature in cursive script, reading 'Kurt R. Sjoberg'.

KURT R. SJOBERG  
Acting Auditor General

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## SUMMARY

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### RESULTS IN BRIEF

The California Exposition and State Fair (Cal Expo) has become fiscally independent but must continue to improve its financial condition and management controls to ensure fiscal independence in the future. For fiscal year 1987-88, we noted the following conditions:

- For the second consecutive year, Cal Expo did not receive any support from the State's General Fund;
- Cal Expo's total revenues for the year exceeded its total expenses by approximately \$2.63 million, and it ended the year with a surplus in the California Exposition and State Fair Enterprise Fund (Enterprise Fund) of approximately \$3.75 million. This was the third consecutive year that Cal Expo's total revenues have exceeded total expenses;
- During fiscal year 1987-88, Cal Expo completed deferred maintenance and repair projects worth approximately \$467,000, but because Cal Expo will no longer receive discretionary allocations from the Satellite Wagering Account, Cal Expo will have to use current revenues, the Enterprise Fund's reserves, or seek additional sources of funding to pay for the remaining deferred maintenance and repair projects worth approximately \$4.3 million;
- Cal Expo has not fully implemented a preventive maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future;
- It has not completed a detailed marketing plan to promote the use of its facilities between state fairs; and

- While Cal Expo has made many improvements to its fiscal accounting and reporting system, the system still has several weaknesses.

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## BACKGROUND

Cal Expo is responsible for managing the annual state fair and for providing a site for other events during the remainder of the year. Among the facilities at Cal Expo are exposition buildings, a racetrack, an aquatic amusement park, and a concert amphitheater. Cal Expo is governed by an 11-member board of directors, which serves as the policy-making body for Cal Expo and is responsible for its year-round operations and management. The board also appoints Cal Expo's general manager.

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## PRINCIPAL FINDINGS

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### Cal Expo Must Continue To Improve Its Financial Condition

Cal Expo has been fiscally independent from the State's General Fund for each of the last two fiscal years but must continue to improve its management and fiscal operations to ensure fiscal independence in future years. During fiscal year 1987-88, Cal Expo's revenues from the state fair and all other sources totaled \$15.13 million. In that same year, Cal Expo's total expenses were \$12.5 million, resulting in an excess of revenues over expenses of approximately \$2.63 million. This excess of revenues resulted primarily from increased revenues from the state fair, interim events, and reimbursable services. Adding the \$2.63 million to the excess revenues for fiscal years 1985-86 and 1986-87, Cal Expo had a total in retained earnings of approximately \$3.75 million in the Enterprise Fund at June 30, 1988. Cal Expo's best revenue generating interim event is simulcast televising of horse races. However, Cal Expo will no longer receive all of the revenue generated by this interim event. During the three fiscal years since the introduction of

simulcast televising of horse races in October 1985, this source of revenue brought Cal Expo \$6.6 million. Of this amount, approximately \$3.1 million was in the form of discretionary allocations from the Department of Food and Agriculture's Satellite Wagering Account. Because the agreement between Cal Expo and the Department of Food and Agriculture expired during fiscal year 1987-88, Cal Expo will no longer receive the discretionary allocations. In the past, discretionary allocations allowed Cal Expo to complete deferred maintenance and repair projects; Cal Expo still faces approximately \$4.3 million in deferred maintenance and repair projects, which it will have to pay for with current year's revenues, the reserves of the Enterprise Fund, or by seeking additional sources of funding.

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Cal Expo Continues To Improve Its  
Management Controls but  
More Improvement Is Needed

In our report entitled "The California Exposition and State Fair Has Continued To Improve Its Financial Condition and Management Controls but More Improvement Is Needed," Report F-743, March 1988, we recommended a number of ways in which Cal Expo could improve its operations. Cal Expo addressed many of the report recommendations by completing some needed maintenance projects, promptly transferring deposits to the Enterprise Fund, and reconciling its control accounts with associated subsidiary records and those accounts maintained by the State Controller's Office. However, Cal Expo still has deficiencies in its management controls. Specifically, Cal Expo has not fully implemented a preventive maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future. In addition, Cal Expo has not completed a detailed marketing plan to promote the use of its facilities between state fairs. Finally, Cal Expo's fiscal accounting and reporting system has several weaknesses. For example, Cal Expo did not properly record all of the expenses for maintenance and repairs that it

incurred during fiscal year 1987-88, and as a result, overstated its net income by approximately \$63,500. We discuss these weaknesses in more detail in the Report on the Study and Evaluation of Internal Control on pages 29 through 34 of this report.

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## RECOMMENDATIONS

To improve its financial condition and management controls, the California Exposition and State Fair should take the following actions:

- Continue to complete needed deferred maintenance projects and fully implement its preventive maintenance plan;
  - Complete a detailed marketing plan to promote the use of its facilities between state fairs; and
  - Improve its fiscal accounting and reporting system. (Refer to pages 29 through 34 of this report for specific recommendations that Cal Expo should implement.)
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## AGENCY COMMENTS

The California Exposition and State Fair generally concurs with our findings and agrees to implement our recommendations.



## INTRODUCTION

On January 10, 1986, the Office of the Auditor General issued a report entitled "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986. This report detailed severe management problems at the California Exposition and State Fair (Cal Expo). The report concluded that a lack of self-generated revenue and poor management controls had contributed to Cal Expo's inability to achieve fiscal independence. Effective February 25, 1986, the Food and Agriculture Code, Section 3337, requires the Office of the Auditor General to prepare a yearly report on the fiscal status of Cal Expo until January 1, 1991.

In March 1988, the Office of the Auditor General issued its second yearly report on Cal Expo entitled "The California Exposition and State Fair Has Continued To Improve Its Financial Condition and Management Controls but More Improvement is Needed," Report F-743. This report concluded that, for the first time, Cal Expo did not receive any support from the State's General Fund and ended fiscal year 1986-87 with a surplus of approximately \$1.13 million in the California Exposition and State Fair Enterprise Fund (Enterprise Fund) for that fiscal year. Although Cal Expo's revenues had exceeded its expenses for a second consecutive year, this report also concluded that more improvement was needed for Cal Expo to achieve fiscal independence. Our current report contains the results of our financial audit of

Cal Expo for the years ended June 30, 1988 and 1987. In the Appendix of this report, we discuss Cal Expo's efforts to implement recommendations from our March 1988 report for improving the management controls and financial reporting system of Cal Expo.

In 1980, state law removed the responsibility for Cal Expo from the Department of Parks and Recreation and established Cal Expo as a separate, independent entity in state government. Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year (interim events). These interim events include simulcasted horse racing, harness racing, concerts, and vehicle shows.

The annual state fair runs for an average of 17 days from mid-August to early September and provides a showcase for the agricultural, recreational, and industrial resources of the State. The fair provides an arena for the presentation of new ideas and information for the education of visitors. Also, the fair provides a marketplace for the demonstration, advertisement, and sale of goods and services. Finally, the state fair provides opportunities for youths, participating in programs such as scouting, 4-H, and Future Farmers of America, to compete in agricultural and livestock events.

Cal Expo opened on its present site in 1968. The site consists of approximately 700 acres along the American River in Sacramento County. Approximately 350 acres of the 700 acres are

protected under the Bushy Lake Preservation Act; only a portion of the protected land may be used and only on a limited basis. The other 350 acres are used for the state fair and other events. Cal Expo facilities include a racetrack, exposition buildings, aquatic amusement park, and a concert amphitheater.

Cal Expo is governed by an 11-member board of directors, 9 of whom the governor appoints with the consent of the Senate. Of the 2 that remain, the speaker of the Assembly appoints one and the Senate Committee on Rules appoints the other. The board creates policies for Cal Expo and is responsible for its year-round management and operation. The board also appoints Cal Expo's general manager; however, the governor appoints the deputy general manager, the program manager, and the marketing manager. In 1980, state law required the board of directors to work toward a goal of fiscal independence from the State's General Fund.

#### SCOPE AND METHODOLOGY

We conducted a financial audit of the Enterprise Fund as of and for the years ended June 30, 1988 and 1987. As part of our audit, we evaluated Cal Expo's internal accounting controls to determine the audit procedures and the extent of testing necessary to express an opinion on the financial statements of Cal Expo.

In addition, we evaluated Cal Expo's progress in correcting the management problems identified in our previous report. We reviewed the report recommendations and obtained Cal Expo's responses to them. We then interviewed Cal Expo's personnel, observed completed maintenance projects, and reviewed Cal Expo's records to determine the extent to which Cal Expo had implemented these recommendations.

## **AUDIT RESULTS**

### **THE CALIFORNIA EXPOSITION AND STATE FAIR IS FISCALLY INDEPENDENT BUT CAN STILL IMPROVE ITS FINANCIAL CONDITION AND MANAGEMENT CONTROLS**

In fiscal year 1987-88, the California Exposition and State Fair (Cal Expo) did not receive any support from the State's General Fund. In addition, Cal Expo's total revenues for the year exceeded its total expenses by approximately \$2.63 million. This was the third consecutive year that Cal Expo ended the year with its total revenues exceeding its total expenses; it ended fiscal year 1987-88 with a total surplus in the California Exposition and State Fair Enterprise Fund (Enterprise Fund) of approximately \$3.75 million. Cal Expo's improved financial condition in fiscal year 1987-88 over the previous years resulted from increased revenues from the state fair, events held during the remainder of the year (interim events), and reimbursable services. Cal Expo's best revenue generating interim event is simulcast televising of horse races. In fiscal year 1987-88, Cal Expo generated a total of approximately \$2.3 million in revenues from simulcast televising of horse races, of which approximately \$929,800 was in the form of discretionary allocations from the Department of Food and Agriculture's Satellite Wagering Account. Cal Expo will continue to generate revenues from simulcasting horse races in future years. However, because the agreement between Cal Expo and the Department of Food and Agriculture expired during fiscal year 1987-88, Cal Expo will no longer receive the discretionary allocations. Over the last three fiscal years, Cal Expo has received approximately

\$3.1 million in discretionary allocations, an average of approximately \$1 million in each year. According to Cal Expo's general manager, receiving the discretionary allocations allowed Cal Expo to complete needed deferred maintenance and repair projects. Because Cal Expo will no longer receive discretionary allocations in the future, Cal Expo will have to use its current year's revenues, reserves of the Enterprise Fund, or seek additional sources of funding to complete deferred maintenance and repair projects. Cal Expo still has approximately \$4.3 million of deferred maintenance and repair projects to complete and has not yet fully implemented a preventive maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future. In addition, Cal Expo has not yet completed a detailed marketing plan to promote the use of its facilities between state fairs.

Further, Cal Expo has implemented many of the recommendations that we made in our previous report entitled "The California Exposition and State Fair Has Continued To Improve Its Financial and Management Controls but More Improvement is Needed," Report F-743, March 1988; however, it still has deficiencies in its fiscal accounting and reporting system. For example, the financial reports for the Enterprise Fund for fiscal year 1987-88 were inaccurate because Cal Expo did not properly record all of the expenses that it incurred for maintenance and repair projects during fiscal year 1987-88, and as a result, Cal Expo's net income was overstated by approximately

\$63,500. In addition, Cal Expo did not properly record other transactions or conduct a complete inventory of its assets.

CAL EXPO IS FISCALLY INDEPENDENT  
BUT CAN IMPROVE ITS FINANCIAL CONDITION

Since 1980, state law has required Cal Expo to work toward becoming fiscally independent of the State's General Fund. Fiscal year 1987-88 was the second consecutive year that Cal Expo did not receive any support from the State's General Fund. In fiscal year 1987-88, Cal Expo generated approximately \$12.84 million in operating revenues from the state fair, interim events, and reimbursements for security, cleanup, and other services that Cal Expo provides. In addition, Cal Expo earned approximately \$485,100 in interest from its deposits in the State's money investment program and received approximately \$1.8 million in other revenues. Cal Expo's total revenues from all sources during fiscal year 1987-88 was approximately \$15.13 million, which is approximately \$2.63 million more than its total expenses for the year and approximately \$3.17 million more than the total revenues for fiscal year 1986-87.

Table 1 compares Cal Expo's total revenues and expenses for fiscal year 1986-87 with Cal Expo's total revenues and expenses for fiscal year 1987-88. For this table, Cal Expo's revenues represent the cash that Cal Expo received or earned for each fiscal year. However, under generally accepted accounting principles (GAAP), some of

Cal Expo's revenues would be classified as nonoperating revenues and operating transfers in. Cal Expo's total revenues and expenses for fiscal years 1986-87 and 1987-88 are presented in accordance with GAAP in the "Statements of Revenues, Expenses, and Changes in Retained Earnings" in the financial section on page 43 of this report.



TABLE 1  
CALIFORNIA EXPOSITION AND STATE FAIR  
REVENUES AND EXPENSES  
FOR THE YEARS ENDED JUNE 30

	<u>1987</u>	<u>1988</u>	<u>Increase (Decrease)</u>
<u>REVENUES</u>			
Operating Revenues			
State fair revenue	\$ 7,179,300	\$ 8,507,800	\$1,328,500
Interim event revenue	2,805,900	3,670,300	864,400
Reimbursable services	<u>502,200</u>	<u>661,000</u>	<u>158,800</u>
Total Operating Revenues	<u>10,487,400</u>	<u>12,839,100</u>	<u>2,351,700</u>
Interest Revenue	<u>209,700</u>	<u>485,100</u>	<u>275,400</u>
Revenues Transferred In			
Satellite Wagering Account			
-Discretionary allocations	992,000*	929,800*	(62,200)
-Livestock barn construction		500,000	500,000
-Horse racing prize money		76,700	76,700
-Relief map		25,000	25,000
Fair and Exposition Fund	265,000	265,000	
State Fair Police Special Account	<u>6,000</u>	<u>6,000</u>	
Total Revenues Transferred In	<u>1,263,000</u>	<u>1,802,500</u>	<u>539,500</u>
Total All Revenues	<u>11,960,100</u>	<u>15,126,700</u>	<u>3,166,600</u>
<u>EXPENSES</u>			
Operating Expenses			
Personal services	5,490,200	5,907,500	417,300
Services and charges	5,007,500	5,474,400	466,900
Depreciation	<u>1,064,000</u>	<u>1,116,500</u>	<u>52,500</u>
Total Operating Expenses	<u>11,561,700</u>	<u>12,498,400</u>	<u>936,700</u>
Interest Expense		<u>1,700</u>	<u>1,700</u>
Total All Expenses	<u>11,561,700</u>	<u>12,500,100</u>	<u>938,400</u>
Total All Revenues Minus Expenses	<u>\$ 398,400</u>	<u>\$ 2,626,600</u>	<u>\$2,228,200</u>

\* These amounts are discretionary allocations from the Satellite Wagering Account for simulcasted horse races and are not a source of income for the future.

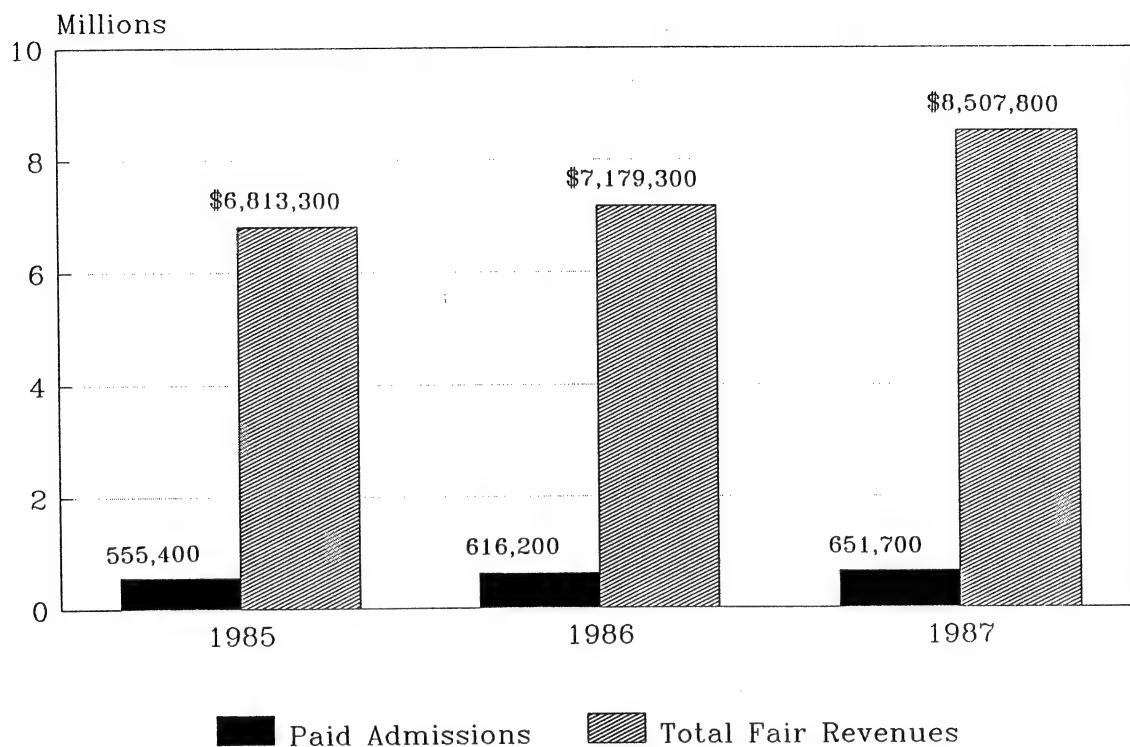
Although discretionary allocations from the Satellite Wagering Account decreased by approximately \$62,200 in fiscal year 1987-88, Cal Expo's total revenues increased by approximately \$3.2 million. By law, most revenues payable to the State as licensing fees from satellite wagering facilities such as Cal Expo must be deposited in a separate account. These revenues are deposited in the Satellite Wagering Account, which is administered by the Department of Food and Agriculture. The director of the Department of Food and Agriculture, at his or her discretion, controls the allocation of these funds, which are available for various purposes, including the repayment of bonds used to finance improvements for fair racetracks, health and safety repair projects at fairs, and support purposes of fairs generally. Based on an agreement between Cal Expo and the Department of Food and Agriculture, Cal Expo was to receive the licensing fees that its satellite facility generated from October 17, 1985, to October 17, 1987. Cal Expo received the licensing fees back from the Satellite Wagering Account as discretionary allocations. Since fiscal year 1987-88 is the last year of the agreement, Cal Expo will not receive discretionary allocations from the Satellite Wagering Account in fiscal year 1988-89 or future years.

Revenues from the state fair increased by approximately \$1.33 million. According to Cal Expo's general manager, the 1987 state fair (fiscal year 1987-88) had, at the time, the highest number of paid admissions in its history at the Cal Expo site. According to Cal Expo's records, the number of paid admissions for the 1987 state fair

exceeded the number of paid admissions for the 1986 state fair by approximately 35,500. The increased number of paid admissions to the state fair also resulted in increased revenues from parking and other activities held during the state fair. Chart 1 compares the paid admissions and total revenues generated from the 1985, 1986, and 1987 state fairs.

**CHART 1**

**CALIFORNIA EXPOSITION AND STATE FAIR  
PAID ADMISSIONS AND TOTAL REVENUES FOR  
THE 1985, 1986, AND 1987 STATE FAIRS**

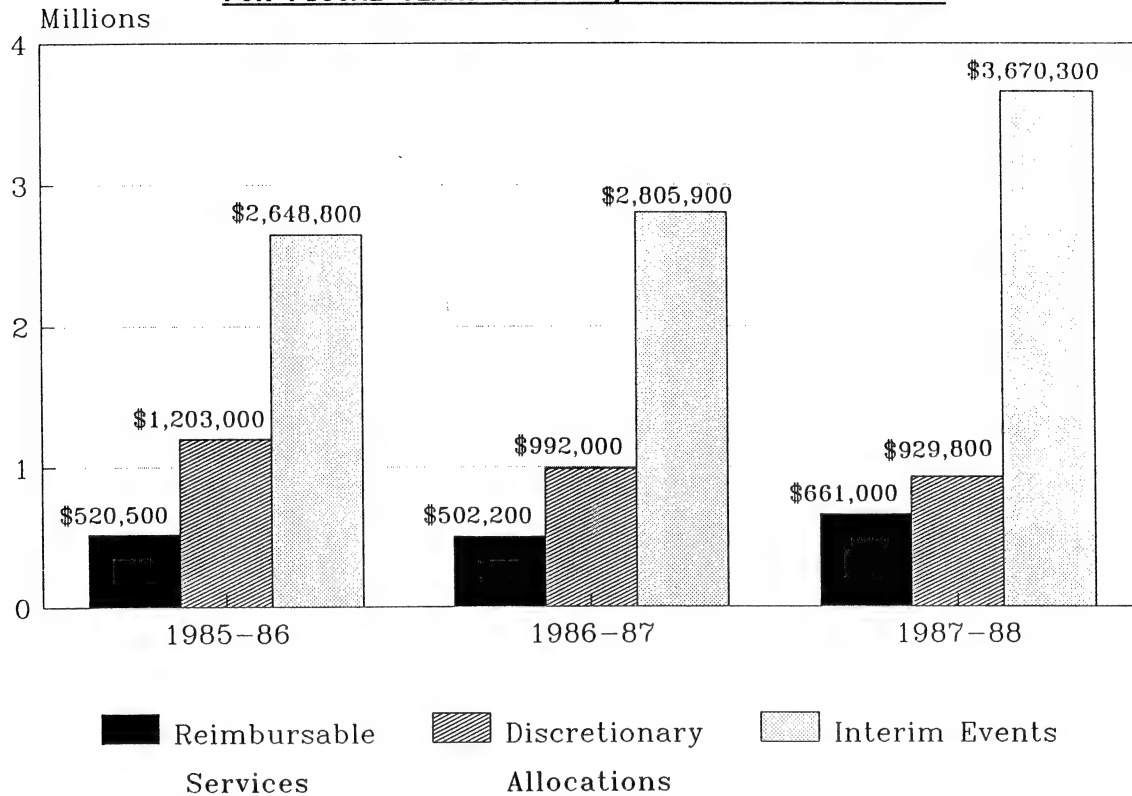


During fiscal year 1987-88, Cal Expo also increased its revenues from its interim events and reimbursable services. Revenues from interim events, such as simulcasted horse racing, increased by approximately \$864,400, and reimbursements for security, cleanup, and other services that Cal Expo provides increased by approximately \$158,800. Simulcasted horse racing, which Cal Expo introduced in October 1985, continues to generate a significant amount of revenue for Cal Expo. By satellite, Cal Expo receives broadcasts of horse races

held at other race tracks, allowing patrons in Sacramento to bet on these races. Simulcasted horse races provided Cal Expo approximately \$2.3 million in fiscal year 1987-88 and approximately \$6.6 million over the last three fiscal years. Of these amounts, Cal Expo received approximately \$1.4 million in fiscal year 1987-88 and approximately \$3.5 million over the last three fiscal years from simulcasting commissions, admissions, and sales of food and beverage. Cal Expo will continue to receive these types of revenues as long as it continues to provide simulcasted horse races. However, \$929,800 of the \$2.3 million received in fiscal year 1987-88 and approximately \$3.1 million of the \$6.6 million received over the last three fiscal years were discretionary allocations from the Satellite Wagering Account and are not a source of income for the future. Chart 2 compares Cal Expo's revenues from reimbursable services, discretionary allocations, and interim events for fiscal years 1985-86, 1986-87, and 1987-88.

**CHART 2**

**CALIFORNIA EXPOSITION AND STATE FAIR  
REVENUES FROM REIMBURSABLE SERVICES,  
DISCRETIONARY ALLOCATIONS, AND INTERIM EVENTS  
FOR FISCAL YEARS 1985-86, 1986-87 AND 1987-88**



The agreement between Cal Expo and the Department of Food and Agriculture did not restrict Cal Expo's use of the discretionary allocations. According to Cal Expo's general manager, receiving the discretionary allocations allowed Cal Expo to complete needed deferred maintenance and repair projects. However, because Cal Expo will not receive discretionary allocations in future years, Cal Expo will have to use current year's revenues, the Enterprise Fund's reserves, or seek additional sources of funding to complete approximately \$4.3 million of deferred maintenance and repair projects.

As well as receiving discretionary allocations from the Satellite Wagering Account, Cal Expo also received \$500,000 from this account and designated the amount towards replacing the livestock barns. Cal Expo also received another \$76,700 from the Satellite Wagering Account as reimbursement for increasing the horse racing prize money paid during the 1987 state fair. In addition, Cal Expo earned about \$485,100 in interest income in fiscal year 1987-88 from its deposits in the Surplus Money Investment Fund.

Cal Expo ended fiscal year 1987-88 with a \$2.63 million surplus. This \$2.63 million surplus combined with a \$1.13 million surplus carried over from fiscal year 1986-87 resulted in a total surplus of approximately \$3.75 million in the Enterprise Fund for fiscal year 1987-88 as shown in the Statements of Revenues, Expenses, and Changes in Retained Earnings on page 43 of this report. However, Cal Expo reported its retained earnings balance for June 30, 1988, in the Enterprise Fund as approximately \$5.75 million. Our figure and Cal Expo's figure for retained earnings are different because of differences in accounting treatment for certain items of revenue, reimbursements, and expenses. Although Cal Expo reports its financial condition according to state laws and regulations, we had to adjust Cal Expo's financial records to prepare the financial statements in accordance with GAAP, thus presenting Cal Expo's financial data in the same way as a business in the private sector presents such data.

While Cal Expo has improved its financial operations during the years ended June 30, 1988 and 1987, it must continue to generate revenues in excess of expenses in future years to replace the loss of the discretionary allocations from the Satellite Wagering Account and to remain fiscally independent from the State's General Fund. However, Cal Expo's slow progress in completing needed deferred maintenance projects may restrict its ability to stay fiscally independent; Cal Expo still needs to complete approximately \$4.3 million in deferred maintenance and repair projects and has not yet fully implemented a formal preventive maintenance plan that could prevent unnecessary repairs and higher long-term costs in the future.

CAL EXPO HAS IMPROVED ITS MANAGEMENT  
CONTROLS BUT MORE IMPROVEMENT IS NEEDED

Cal Expo has addressed many of the recommendations that we made in our report of March 1988. Specifically, Cal Expo has completed some needed maintenance projects and has made improvements in some aspects of its fiscal accounting and reporting system, such as promptly transferring deposits to the Enterprise Fund and reconciling its control accounts with associated subsidiary records and with those accounts maintained by the State Controller's Office. (These improvements are discussed in detail in the Appendix of this report.) However, Cal Expo still needs to complete other needed maintenance projects, fully implement its preventive maintenance and marketing plans, and further improve its fiscal accounting and reporting system.



### Maintenance Projects

In 1985, engineers from the Division of Fairs and Exposition of the Department of Food and Agriculture completed a survey of the physical condition of the Cal Expo facility. The engineers determined that the Cal Expo grounds needed health, safety, structural, electrical, and maintenance work totaling almost \$4.6 million. In their report, the engineers concluded that "to generate additional revenue [Cal Expo] should have an attractive and well-maintained physical plant that will encourage the public to utilize its facilities."

However, Cal Expo's progress toward completing the deferred maintenance projects is slow because of a limited amount of funds. In fiscal year 1985-86, Cal Expo received \$1 million from the State's General Fund and completed in that year deferred maintenance projects worth almost \$1 million. In fiscal year 1986-87, Cal Expo did not receive any special funding for deferred maintenance projects. However, Cal Expo generated more revenues from its operations in fiscal year 1986-87 than planned and used some of these excess revenues to complete deferred maintenance and repair projects worth approximately \$450,000. In fiscal year 1987-88, Cal Expo received \$500,000 from the Satellite Wagering Account for deferred maintenance. Further, Cal Expo's budget for fiscal year 1987-88 included an additional \$500,000 for deferred maintenance for a total of \$1 million, and Cal Expo designated this amount towards a specific deferred maintenance

project: replacing the livestock barns. In its 1985 report, the Department of Food and Agriculture determined that Cal Expo should replace the livestock barns at an estimated cost of \$1.35 million. However, according to Cal Expo's general manager, the cost of the barns that Cal Expo plans to build will exceed \$4 million. Cal Expo is attempting to obtain funding from various sources to pay the remainder of the cost and plans to start building the new barns after the 1989 state fair.

Other than the \$500,000 from the Satellite Wagering Account, Cal Expo did not receive any special funding for deferred maintenance in fiscal year 1987-88. However, a provision in the Budget Act of 1987 permitted Cal Expo, with the director of the Department of Finance's approval, to increase its budgeted spending authority if sufficient money existed in Cal Expo's reserve to cover the increased spending authority. Cal Expo generated more revenues from its operations in fiscal year 1987-88 than planned and, with the approval of the director of the Department of Finance, used some of these excess revenues to complete deferred maintenance and repair projects worth approximately \$467,000. For example, Cal Expo wired the video system in the grandstand, made improvements to the main gate and west gate entrances, and built a separate dressing room for female jockeys.

For fiscal year 1988-89, Cal Expo budgeted \$1.45 million for deferred maintenance. According to Cal Expo's general manager, Cal Expo is committed to continue to complete deferred maintenance and

repair projects even though Cal Expo will not receive discretionary allocations from the Satellite Wagering Account in fiscal year 1988-89. The general manager further stated that Cal Expo will use the Enterprise Fund's reserves to fund the fiscal year 1988-89 \$1.45 million budget for deferred maintenance. However, although Cal Expo has completed many of the deferred maintenance and repair projects and plans to complete more, it also has revised certain costs and added some projects to the Department of Food and Agriculture's list. These revisions and additions have increased to approximately \$4.3 million the estimated costs for deferred maintenance and repair projects as of December 1988.

#### Preventive Maintenance Plan

In past fiscal years, Cal Expo maintenance staff have performed ongoing repairs and servicing of the Cal Expo site without the benefit of a preventive maintenance plan. Although Cal Expo developed a preventive maintenance plan during fiscal year 1987-88, Cal Expo has not yet fully implemented its use.

To develop its preventive maintenance plan, Cal Expo used, in part, the recommendations made in a 1980 report prepared by an independent consulting firm, which conducted a study to assist Cal Expo to develop a preventive maintenance plan and management system. The plan includes a comprehensive list of all plant and equipment items that should be routinely inspected and serviced, a schedule indicating

the required frequency of maintenance, and the standard time that it should take to inspect and service each item. Also, Cal Expo automated the preventive maintenance plan to allow for in-depth analysis of maintenance performance and needs. Cal Expo intends to periodically review the preventive maintenance plan once it is in use to ensure that work is accomplished as planned and modifications are made if necessary. According to Cal Expo's administrator, Cal Expo plans to fully implement the preventive maintenance plan during 1989. Until Cal Expo fully implements its preventive maintenance plan, Cal Expo may experience inefficient operations due to breakdowns and may incur costly and unnecessary repairs and higher long-term costs because of the accelerated deterioration of its facility. As a result, Cal Expo may lose a continued flow of revenue.

#### Marketing Plan

Cal Expo has not completed a detailed marketing plan to promote the rental of its facilities during the interim between state fairs. A marketing plan is a planning tool that formally identifies the market--in this instance, the organizations most likely to rent the Cal Expo facilities--and then specifies the actions to be taken to increase revenues from the market--in this case, from the rental of Cal Expo's facilities. According to Cal Expo's general manager, Cal Expo has developed a marketing plan, but the plan is not complete. The general manager states that the marketing plan, when it is complete, will contain specific plans for promoting the use of

Cal Expo's facilities between state fairs by analyzing present users of Cal Expo's facilities. Cal Expo's general manager also states that Cal Expo has general goals of maximizing promoters' use of the facilities and of "moving renters who cannot afford larger buildings or whose events do not warrant the larger space to smaller more affordable facilities." Further, the general manager states that Cal Expo has increased its rental rates and believes that the amount of rent paid by the renters sufficiently covers the costs to Cal Expo of renting the facility.

Although Cal Expo does not have a completed detailed marketing plan to promote the use of its facilities between state fairs, Cal Expo has taken steps to improve the marketing of the facilities. For example, Cal Expo hired an account executive who is responsible for marketing the facilities. In addition, Cal Expo hired a public relations manager and contracted with advertising agencies to provide public relation services and an advertising plan and services for Cal Expo. However, until Cal Expo completes the marketing plan, it may not be maximizing its promotion of the Cal Expo facilities between state fairs, determining the appropriate rental rates, keeping informed of local market trends, or properly analyzing the present or future users of the Cal Expo facilities.

## Fiscal Accounting and Reporting System

Cal Expo has taken steps to improve its fiscal accounting and reporting system, but more improvement is needed to ensure accurate and reliable financial information and safeguard assets. During our current review of Cal Expo's fiscal accounting and reporting system, we found that Cal Expo implemented procedures to expedite the transfer of deposits to the Enterprise Fund, thus maximizing the amount of interest income gained from its deposits. We also noted that Cal Expo implemented procedures to prepare reconciliations of its control accounts with the associated subsidiary records and those accounts maintained by the State Controller's Office. In the Appendix of this report, we discuss these improvements as well as other improvements that Cal Expo made to its fiscal accounting and reporting system. However, Cal Expo's accounting and reporting system still does not always provide sufficient information for effective fiscal management because Cal Expo does not always accurately record financial transactions and it did not conduct a complete inventory of its assets.

Specifically, during fiscal year 1987-88, Cal Expo did not properly record all of the expenses that it incurred for deferred maintenance and repair projects. As a result, Cal Expo understated its operating expenses and overstated its net income and fixed assets by approximately \$63,500. In addition, Cal Expo understated the liabilities of the Enterprise Fund for June 30, 1988, thus further overstating net income at June 30, 1988, by approximately \$96,100.

Further, Cal Expo did not record all cash receipts in the proper fiscal year. We discuss these errors as well as other errors and weaknesses in Cal Expo's fiscal accounting and reporting system in the Report On the Study and Evaluation of Internal Control, pages 29 through 34 of this report. Finally, we have corrected all of the errors noted on these pages in the audited financial statements presented on pages 37 through 50 and also in Table 1 on page 9 of this report.

### CONCLUSION

In fiscal year 1987-88, for the second time, the California Exposition and State Fair did not receive any support from the State's General Fund. In addition, for the third consecutive year, Cal Expo earned enough revenue to pay for its operations. Cal Expo ended fiscal year 1987-88 with a \$3.75 million surplus in the California Exposition and State Fair Enterprise Fund. However, because Cal Expo will not receive discretionary allocations from the Satellite Wagering Account in future years and because Cal Expo still needs to complete approximately \$4.3 million in deferred maintenance and repair projects on the Cal Expo facility, Cal Expo's continued fiscal independence is not guaranteed. Consequently, continued improvement is needed if Cal Expo is to remain fiscally independent of the State's General Fund.

In addition, Cal Expo has implemented many of the recommendations that we made in our previous report, "The California Exposition and State Fair Has Continued To Improve Its Financial Condition and Management Controls but More Improvement is Needed," Report F-743, March 1988. Cal Expo has completed some needed maintenance projects and has made improvements in some aspects of its fiscal accounting and reporting system such as transferring deposits to the Enterprise Fund promptly to maximize interest earnings. However, Cal Expo still needs to fully implement its preventive maintenance plan, complete a detailed marketing plan to promote the use of its facilities between state fairs, and further improve its fiscal accounting and reporting system.

#### RECOMMENDATIONS

To improve its financial condition and management controls, the California Exposition and State Fair should take the following actions:

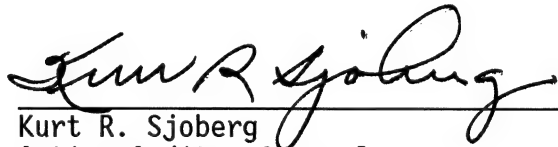
- Continue to complete needed deferred maintenance and repair projects;
- Fully implement its preventive maintenance plan to reduce the cost of repairs in the future;



- Complete a detailed marketing plan to promote the use of its facilities between state fairs and to maximize rental revenues; and
- Improve its fiscal accounting and reporting system. (Refer to pages 29 through 34 of this report for specific recommendations that Cal Expo should implement.)

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our scope to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
Kurt R. Sjoberg  
Acting Auditor General

Date: April 17, 1989

Staff: Sally Filliman, CPA, Audit Manager  
James E. Rostron, CPA  
Robert G. Ficke

**REPORT ON THE STUDY AND EVALUATION  
OF INTERNAL CONTROL**



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STATE OF CALIFORNIA  
**Office of the Auditor General**

Kurt R. Sjoberg  
Acting Auditor General

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**Members of the Joint Legislative Audit Committee  
State of California**

We have examined the financial statements of the California Exposition and State Fair Enterprise Fund (Enterprise Fund) as of and for the years ended June 30, 1988 and 1987, and have issued our report dated February 9, 1989. As part of our examination, we studied the California Exposition and State Fair's (Cal Expo) system of internal control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the General Accounting Office. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on Cal Expo's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal controls taken as a whole.

The Department of Finance and the management of Cal Expo are responsible for establishing and maintaining an internal control system. In fulfilling that responsibility, management is required to assess the expected benefits and related costs of control procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are recorded in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting and administrative controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become ineffective because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purposes described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Cal Expo taken as a whole.

We considered the conditions noted in this report in determining the nature, timing, and extent of the audit tests applied in our examination of the financial statements for fiscal year 1987-88, and this report does not affect our report on the financial statements dated February 9, 1989.

On March 16, 1989, my staff met with Joseph Barkett, Peter Sugar, and James Padrez of Cal Expo to discuss weaknesses in the system of internal control and to suggest solutions to these problems. Following is a summary of the items discussed during the meeting.

**Item 1.**

**Inaccurate Year-End Financial Reports**

**Finding:**

Although Cal Expo has taken steps to improve its fiscal accounting and reporting system, more improvement is needed to ensure accurate and reliable financial information and safeguard assets. Cal Expo's accounting and reporting system still does not always provide sufficient information for effective fiscal management because Cal Expo does not accurately record all financial transactions.

In the following sections of Item 1, we describe specific errors that we noted in Cal Expo's year-end financial reports. These errors relate to deferred maintenance and repair projects, liabilities, and cash. We have corrected all of the errors noted below in the audited financial statements presented on pages 37 through 50 and also in Table 1 on page 9 of this report.

- **Cal Expo Did Not Properly Record Expenses for Deferred Maintenance and Repair Projects**

Cal Expo's year-end financial reports for fiscal year 1987-88, as presented to the State Controller's Office, were inaccurate because Cal Expo did not properly record all of the expenses that it incurred during the year for deferred maintenance and repair projects. As a result, Cal Expo understated its operating expenses and overstated its net income and fixed assets by approximately \$63,500. This error occurred because Cal Expo does not have a policy that establishes when the accounting office should classify deferred maintenance or repair projects as either capital improvement or maintenance projects. Consequently, the accounting office classified six deferred maintenance and repair projects that Cal Expo

completed during fiscal year 1987-88 at a cost of approximately \$86,300 as capital improvement projects reported as fixed assets that should have been classified as maintenance expenses. Cal Expo capitalizes capital improvement projects by depreciating the projects' costs over the estimated useful life of the projects. As a result, in fiscal year 1987-88, Cal Expo calculated and reported depreciation expense of \$22,800 instead of reporting maintenance expense for the projects' total cost of \$86,300;

- Cal Expo Did Not Record All of Its Liabilities

Cal Expo's year-end financial reports for fiscal year 1987-88 were inaccurate because Cal Expo understated the liabilities of the Enterprise Fund for June 30, 1988, by approximately \$131,100. Specifically, Cal Expo did not record a liability for approximately \$36,700 (including the related interest charges of \$1,700 as of June 30) that it owed for a tractor that it purchased on an installment purchase contract. In addition, Cal Expo did not include in the accounts payable balance or in the due to other funds balance amounts for goods and services that it received by June 30 worth approximately \$94,400. As a result of not recording the liability for the tractor and of not including all amounts in the accounts payable balance, Cal Expo understated its operating expenses and overstated net income by approximately \$96,100 for fiscal year 1987-88; and

- Cal Expo Did Not Properly Record All of Its Cash Receipts

Cal Expo's year-end financial reports for fiscal year 1987-88 were inaccurate because Cal Expo did not record all cash receipts in the proper fiscal year. As a result, Cal Expo understated the cash account balance of the Enterprise Fund for June 30, 1988, by approximately \$14,600. This understatement of cash occurred because Cal Expo's accounting officer records cash only after obtaining notice that the bank received Cal Expo's deposit rather than when Cal Expo actually received and deposited the cash.

Criteria: The State Administrative Manual, Section 8618, states that maintenance and repair costs should not be capitalized. The State Administrative Manual, Section 7634, states that agencies should record as liabilities the amounts owed on installment purchase contracts. In addition, the State Administrative Manual, Section 7630, identifies the proper account that state agencies should use to record interest owed and requires that the balance of accounts payable reflect the cost of goods or services received but not yet paid for. Finally, the State Administrative Manual, Section 10401, requires that the balance of cash reflect the cash collected by the agency and deposited, or to be deposited, in its general cash account.

Recommendations: Cal Expo should develop a capitalization policy that establishes when maintenance and repair projects should be classified either as fixed assets to be capitalized and depreciated or as maintenance and repair expenses. In addition, Cal Expo should record as liabilities amounts owed at fiscal year end for goods purchased on installment sales contracts, including interest charges. Further, it should accrue as accounts payable all amounts that reflect the cost of goods or services received but not yet paid for. Finally, Cal Expo should record in the cash account balance at year end all cash that it collected by that year end and deposited or will deposit in the bank.

**Item 2. Insufficient Control Over Revolving Fund Receivables and Long Outstanding and Voided Checks**

Finding: Cal Expo does not maintain sufficient control over its revolving fund receivables and long outstanding and voided checks. Specifically, Cal Expo does not maintain a revolving fund receivables ledger to account for amounts disbursed from the revolving fund, such as travel and salary advances. In addition, Cal Expo has not cancelled long outstanding checks that it issued from its checking accounts and that were not cashed by the recipients. Moreover, it has not properly voided unusable checks. We noted a total of 29 checks totaling approximately \$11,900 that Cal Expo issued over two years ago that are still outstanding. Also, we noted that for a total of 11 checks that Cal Expo voided, it did not cut, tear, or otherwise destroy the signature areas. Failure to sufficiently control amounts owed to the revolving fund or control long outstanding and voided checks

could result in an error in Cal Expo's records or an illegal act committed by a Cal Expo employee going undetected for a prolonged period of time.

Criteria: The State Administrative Manual, Sections 8190 and 8192, requires agencies to maintain a revolving fund receivables ledger. Also, the State Administrative Manual, Section 8042, requires agencies to cancel checks that have been outstanding for more than two years and to remit the monies to the Special Deposit Fund. Finally, the State Administrative Manual, Section 8041, states that agencies should write the word "VOID" across the face of the voided checks, cut or tear off the signature area of the voided checks, and retain all voided checks for audit.

Recommendation: Cal Expo should establish a revolving fund receivables ledger, cancel long outstanding checks, and cut, tear, or otherwise destroy the signature areas of all voided checks.

### Item 3. Insufficient Control Over Fixed Assets

Finding: Cal Expo does not maintain sufficient control over its fixed assets. Specifically, Cal Expo does not ensure that all items of equipment are tagged or that all items of equipment are included in the equipment records. Of the 20 items of equipment that Cal Expo acquired during fiscal year 1987-88, Cal Expo did not assign tags to 5 of the items, and one item's assigned tag was missing. We also noted one item of equipment acquired in a previous fiscal year that Cal Expo did not include in its equipment records. Further, Cal Expo has not conducted a complete physical inventory of all property since August 1985 when the Office of the Auditor General hired an independent contractor to review Cal Expo's inventory control procedures and to conduct a complete physical inventory. Although Cal Expo conducted an inventory in May 1988, the inventory did not include all of Cal Expo's property. Until Cal Expo ensures that all items of equipment are tagged and included in the equipment records and that it conducts a complete physical inventory of its property and reconciles the inventory with its accounting records, Cal Expo's property is at risk of loss.

Criteria: The State Administrative Manual, Sections 8650 and 8651, requires agencies to tag all state property and to record such property in its property

records. In addition, the State Administrative Manual, Section 8652, states that state agencies should make a physical count of all property and reconcile the count with accounting records at least once every three years.

Recommendations: Cal Expo should tag all equipment and ensure that all equipment is recorded in the equipment records. In addition, it should conduct a complete inventory of its fixed assets and reconcile the inventory with the property and accounting records.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in black ink, appearing to read "Curt Davis", is written over the printed name.

CURT DAVIS, CPA  
Deputy Auditor General

February 9, 1989



## **FINANCIAL SECTION**



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STATE OF CALIFORNIA  
**Office of the Auditor General**

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SACRAMENTO, CA 95814

Kurt R. Sjoberg  
Acting Auditor General

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying balance sheets of the California Exposition and State Fair Enterprise Fund as of June 30, 1988 and 1987, the related statements of revenues, expenses, and changes in retained earnings, and the statements of changes in financial position for the years then ended. These financial statements are the responsibility of the management of the California Exposition and State Fair. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Exposition and State Fair Enterprise Fund as of June 30, 1988 and 1987, and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in dark ink, appearing to read "Curt Davis", is written over a circular stamp that contains the text "OFFICE OF THE AUDITOR GENERAL".

CURT DAVIS, CPA  
Deputy Auditor General

February 9, 1989

## **FINANCIAL STATEMENTS**

**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
BALANCE SHEETS  
AS OF JUNE 30**

	<u>1988</u>	<u>1987</u>
<b>ASSETS</b>		
Cash and pooled investments (Note 3)	\$ 7,743,041	\$ 4,235,214
Receivables (net of uncollectibles)	452,347	323,259
Due from other funds (Note 4)	284,693	532,536
Due from other governments		622
Prepaid expenses	22,792	9,157
Advances to other funds	104,310	
Fixed assets (Notes 2 and 5)	<u>11,878,182</u>	<u>12,419,482</u>
Total Assets	<u>\$20,485,365</u>	<u>\$17,520,270</u>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities		
Accounts payable	\$ 569,660	\$ 504,879
Due to other funds	311,048	339,030
Due to other governments		15,809
Installment contracts	34,937	
Compensated absences payable (Note 6)	253,221	192,029
Advance collections	343,481	214,780
Other liabilities	<u>78,964</u>	<u>57,003</u>
Total Liabilities	<u>1,591,311</u>	<u>1,323,530</u>
Fund Equity		
Contributed capital	15,141,964	15,071,283
Retained earnings	<u>3,752,090</u>	<u>1,125,457</u>
Total Fund Equity	<u>18,894,054</u>	<u>16,196,740</u>
Total Liabilities and Fund Equity	<u>\$20,485,365</u>	<u>\$17,520,270</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED JUNE 30**

	<u>1988</u>	<u>1987</u>
Operating Revenues		
Services and sales	\$12,839,107	\$10,487,356
Operating Expenses		
Personal services	5,907,463	5,490,209
Services and charges	5,474,418	5,007,502
Depreciation	<u>1,116,469</u>	<u>1,063,973</u>
Total Operating Expenses	<u>12,498,350</u>	<u>11,561,684</u>
Operating Income (Loss)	340,757	(1,074,328)
Nonoperating Revenues (Expenses)		
Interest revenue	485,094	209,668
Interest expense	<u>(1,747)</u>	<u></u>
Total Nonoperating Revenues (Expenses)	483,347	209,668
Operating Transfers In (Note 8)	<u>1,802,529</u>	<u>1,263,000</u>
Net Income	2,626,633	398,340
Retained Earnings, Beginning	<u>1,125,457</u>	<u>727,117</u>
Retained Earnings, End	<u><u>\$ 3,752,090</u></u>	<u><u>\$ 1,125,457</u></u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED JUNE 30**

	<u>1988</u>	<u>1987</u>
Sources of Funds		
From operations		
Net income	\$2,626,633	\$ 398,340
Add item not affecting cash		
Depreciation	<u>1,116,469</u>	<u>1,063,973</u>
Funds Provided From Operations	3,743,102	1,462,313
Contributed capital	70,681	
Increases in current liabilities		
Accounts payable	64,781	2,973
Due to other funds		207,190
Due to other governments		13,961
Installment contracts	34,937	
Compensated absences payable	61,192	7,325
Advance collections	128,701	149,975
Other liabilities	21,961	
Decreases in current assets		
Due from other funds	247,843	814,274
Due from other governments	<u>622</u>	
Total Funds Provided	<u>4,373,820</u>	<u>2,658,011</u>
Application of Funds		
Acquisition of fixed assets	575,169	396,684
Increases in current assets		
Receivables	129,088	316,428
Due from other governments		622
Prepaid expenses	13,635	9,157
Advances to other funds	104,310	
Decreases in current liabilities		
Due to other funds	27,982	
Due to other governments	15,809	
Other liabilities		<u>87,441</u>
Total Funds Applied	<u>865,993</u>	<u>810,332</u>
Net Increase in Cash and Pooled Investments	<u>\$3,507,827</u>	<u>\$1,847,679</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Definition of Reporting Entity

In 1980, state law established the California Exposition and State Fair (Cal Expo) as a separate, independent entity in state government. On February 25, 1986, the enactment of Chapter 8, Statutes of 1986, created the California Exposition and State Fair Enterprise Fund (Enterprise Fund). Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year. These events include simulcasted horse racing, harness racing, concerts, and vehicle shows.

### 2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. Following is a summary of significant accounting policies that pertain to Cal Expo's financial statements.

#### A. Fund Accounting

The Enterprise Fund presents data on state activities that are similar to those found in the private sector. Enterprise funds account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the costs involved are to be financed by user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

#### B. Basis of Accounting

The Enterprise Fund is accounted for by using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

#### C. Fixed Assets

Fixed assets, consisting of land, buildings and improvements, and equipment, are recorded in the Enterprise Fund either at cost or estimated fair market value at the date of acquisition, less accumulated depreciation (See Note 5). Depreciable fixed assets are depreciated over their estimated service lives, ranging from 3 to 40 years, using the straight-line method of depreciation.

### 3. Cash and Pooled Investments

Cal Expo's cash and pooled investments account includes general cash, revolving fund cash, cash deposited in the State's centralized treasury system, and cash on hand. In addition, to more closely reflect the nature of the assets, Cal Expo's share of the pooled investment program of the State Treasurer's Office has been reclassified to the cash and pooled investments account for both fiscal years 1987-88 and 1986-87. In previous years, the deposits in the Surplus Money Investment Fund (SMIF) were reported as due from other funds. The disclosures required for the pooled investment program are presented in the general purpose financial statements of the State of California for the year ended June 30, 1988. The following schedule summarizes the cash and pooled investments account balance at June 30:

	<u>1988</u>	<u>1987</u>
General cash	\$ 563,422	\$ 863,744
Revolving fund cash	16,740	51,049
Cash in state treasury	1,329	1,421
Cash on hand	<u>20,550</u>	
Subtotal	602,041	916,214
Deposits in SMIF	<u>7,141,000</u>	<u>3,319,000</u>
Total	<u>\$7,743,041</u>	<u>\$4,235,214</u>

### 4. Due From Other Funds

As discussed in Note 3, Cal Expo's deposits in SMIF have been reclassified from this account to the cash and pooled investments account. In addition, to more closely reflect the nature of Cal Expo's assets, Cal Expo's interest due from SMIF at June 30, 1987, has been reclassified from receivables to this account. In 1987, the account included an amount due from the State's General Fund. This amount is the result of a transfer to the Enterprise Fund, which was incorrectly credited to the State's General Fund. The following schedule summarizes the due from other funds account balance at June 30:

	<u>1988</u>	<u>1987</u>
Interest due from SMIF	\$277,948	\$110,306
Due from General Fund		409,769
Due from various funds	<u>6,745</u>	<u>12,461</u>
Total	<u>\$284,693</u>	<u>\$532,536</u>



5. Fixed Assets

The following schedule presents a summary of the fixed assets recorded in the Enterprise Fund as of June 30:

	<u>1988</u>	<u>1987</u>
Land	\$ 1,643,577	\$ 1,643,577
Buildings and improvements	26,703,710	26,316,885
Equipment	<u>414,366</u>	<u>226,022</u>
Total Fixed Assets	28,761,653	28,186,484
Less accumulated depreciation	<u>16,883,471</u>	<u>15,767,002</u>
Net Fixed Assets	<u>\$11,878,182</u>	<u>\$12,419,482</u>

6. Compensated Absences Payable

As of June 30, 1988 and 1987, Cal Expo's liability for accumulated vacation, compensated time off, and personal holidays amounted to \$253,221 and \$192,029, respectively. The liability for compensated absences does not include amounts for accumulated sick leave because employees cannot receive cash for sick-leave balances when they leave state service. Accumulated sick leave may be exchanged upon retirement for service credits in an employee's retirement account.

7. Retirement Contributions

Regular employees of Cal Expo are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount that Cal Expo and its employees contribute to the PERS is determined actuarially under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as they are accrued. Cal Expo's share of retirement contributions for fiscal years 1987-1988 and 1986-1987 were \$349,620 and \$327,514, respectively.

8. Operating Transfers In

The following schedule summarizes the amounts transferred from other funds and accounts to the Enterprise Fund during the fiscal years ended June 30:

	<u>1988</u>	<u>1987</u>
Satellite Wagering Account	\$1,531,529	\$ 992,000
Fair and Exposition Fund	265,000	265,000
State Fair Police Special Account	<u>6,000</u>	<u>6,000</u>
Total	<u>\$1,802,529</u>	<u>\$1,263,000</u>

9. Subsequent Events

On July 27, 1988, the State Controller's Office transferred \$1.5 million from Cal Expo's Enterprise Fund to the State's General Fund. The California Government Code, Section 16310, allows the General Fund to borrow funds, interest free, from another fund. On August 16, 1988, the State Controller's Office transferred the \$1.5 million back to the Enterprise Fund. However, because the \$1.5 million was not in the Enterprise Fund and because the General Fund does not pay interest on borrowed funds, Cal Expo lost approximately \$6,800 in interest earnings.

## APPENDIX

### **THE CALIFORNIA EXPOSITION AND STATE FAIR'S IMPLEMENTATION OF PREVIOUS OFFICE OF THE AUDITOR GENERAL'S RECOMMENDATIONS**

In March 1988, the Office of the Auditor General issued a report entitled "The California Exposition and State Fair Has Continued To Improve Its Financial Condition and Management Controls but More Improvement Is Needed," Report F-743. Below are the recommendations from this report and a summary of the California Exposition and State Fair's (Cal Expo) efforts to implement them.

#### Recommendation

To meet the State's directive to work toward a goal of financial independence from the State's General Fund, Cal Expo should continue to seek sources of funding to complete much needed maintenance projects.

#### Status

During fiscal year 1987-88, Cal Expo completed deferred maintenance projects worth approximately \$467,000. However, as we discuss on pages 10 through 14 of our current report, an agreement between Cal Expo and the Department of Food and Agriculture resulted in Cal Expo receiving, on average, approximately \$1 million in discretionary allocations in each of the last three fiscal years. Cal Expo used the discretionary allocations to complete deferred maintenance and repair projects. Because fiscal year 1987-88 is the last year that Cal Expo will receive the discretionary allocations, Cal Expo must use current revenues, the California Exposition and State Fair Enterprise Fund's (Enterprise Fund) reserves, or seek additional sources of funding in future years to complete approximately \$4.3 million in deferred maintenance and repair projects.

#### Recommendation

To improve the physical condition of the Cal Expo facility, Cal Expo should develop and implement a preventive maintenance plan to reduce the cost of repairs in the future.

#### Status

Cal Expo developed a preventive maintenance plan that includes a comprehensive list of all plant and equipment items that will be routinely inspected and serviced. In addition, the plan includes a schedule indicating the required frequency of maintenance and the standard time that it should take to inspect and service each item.

However, as we discuss on pages 19 and 20 of our report, Cal Expo has yet to fully implement the plan. Until Cal Expo fully implements its preventive maintenance plan, Cal Expo may incur costly and unnecessary repairs and higher long-term costs because of the accelerated deterioration of its facility.

#### Recommendation

In addition, to improve its financial reporting system and to provide more effective fiscal management, we recommended that Cal Expo take the following actions:

- Recommendation

Transfer deposits to the Enterprise Fund as soon as possible to earn the maximum amount of interest income from its deposits.

#### Status

As reported in our previous report, between July 1, 1986, and October 31, 1987, Cal Expo took an average of 46 days to transfer its bank deposits to the Enterprise Fund. However, after we issued our previous report, Cal Expo implemented procedures to ensure that it promptly transfers deposits to the Enterprise Fund, and it has reduced the average number of days to transfer bank deposits from 46 days to less than 5 days. In addition, Cal Expo's interest earnings from its deposits in the Enterprise Fund increased from approximately \$209,700 earned in fiscal year 1986-87 to approximately \$485,100 earned in fiscal year 1987-88, an increase of 131 percent.

- Recommendation

Prepare reconciliations of agency control accounts with associated subsidiary records and with those accounts maintained by the State Controller's Office.

#### Status

Cal Expo prepares reconciliations of its control accounts with its subsidiary records and with the accounts maintained by the State Controller's Office.

- Recommendation

Maintain up-to-date accounting records to provide for the early correction of errors and the prompt and accurate preparation of financial statements.

### Status

Cal Expo maintained up-to-date accounting records that allowed it to prepare prompt and, except for the errors noted on pages 30 and 31 of this report, accurate financial statements.

### - Recommendation

Accrue as accounts payable only amounts that should be included in the accounts payable balance at year end.

### Status

Cal Expo did not accrue as accounts payable all amounts that should have been included as accounts payable at year end. As discussed on page 31 of this report, we identified approximately \$131,000 worth of accounts payable that Cal Expo did not accrue at year end.

### - Recommendation

Record in the cash account all cash that has been collected and deposited or will be deposited in the bank.

### Status

Cal Expo did not record in the cash account at year end all cash that it collected by that year end and deposited or was to deposit in the bank. As discussed on page 31 of this report, we identified approximately \$14,600 in cash that Cal Expo did not record in its cash account at year end.

### - Recommendation

Ensure that disbursements are properly authorized.

### Status

Cal Expo implemented procedures to ensure that disbursements are properly authorized.

### - Recommendation

Ensure that property records contain appropriate information for determining depreciation expense and provide information to support account balances of fixed assets.

### Status

Cal Expo's property records contain information that allowed Cal Expo to determine its depreciation expense for fiscal year 1987-88. In addition, Cal Expo's property records support account balances of fixed assets.

- Recommendation

To improve its control over fixed assets, Cal Expo management should conduct an annual physical inventory of fixed assets and reconcile the inventory with the property and accounting records.

Status

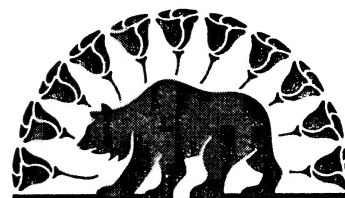
Cal Expo conducted a physical inventory of its fixed assets and reconciled the inventory with the property and accounting records. However, as discussed on page 33 of our report, Cal Expo's inventory did not include all of its fixed assets. Until Cal Expo conducts an inventory of all of its fixed assets and reconciles the inventory with property and accounting records, it is still at risk of loss.

- Recommendation

To more fully use its facilities during the interim between state fairs and to maximize rental revenue, Cal Expo management should develop a detailed marketing plan to promote the use of the Cal Expo facilities between state fairs and determine the actual costs of renting the facilities.

Status

As we discussed on pages 20 and 21 of our current report, Cal Expo has not completed a detailed marketing plan to promote the use of its facilities between state fairs and determine the actual costs of renting the facilities.



# California State Fair

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April 13, 1989

Kurt R. Sjoberg  
Acting Auditor General  
Office of the Auditor General  
660 J Street, Room 300  
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on the draft of your report entitled "The California Exposition and State Fair is Fiscally Independent But Can Still Improve Its Financial Condition and Management Control".

Generally, we found the report for the period audited to be factual and objective. Since your report recognizes our ongoing effort to improve the operations of the California Exposition and State Fair, we are limiting our response to a summary of the action taken or the actions we propose to take to address your recommendations. We would also like to clarify one issue as follows:

Your report places great emphasis on the fact that approximately \$3.1 million of revenue generated at the Cal Expo satellite wagering facility to the Satellite Wagering Account may not be available in future years. This is because the account is administered by the Department of Food and Agriculture which has indicated these funds will be dedicated to other fairs in California.

We feel it would be appropriate to return at least a fixed percentage of Satellite Wagering Account revenue that Cal Expo generates from its simulcast facility. The Department of Food and Agriculture does not have oversight responsibility for the California Exposition and State Fair as it does for county and district fairs. Nevertheless, the Department of Finance projects substantial reserves for Cal Expo

Mr. Kurt R. Sjoberg  
Page Two

as of June 30, 1989, without any additional commitment of these discretionary monies. These projections indicate that Cal Expo has not been dependent on discretionary allocations from the satellite wagering account to meet its operational needs. We will continue to draw on this fund, to the extent possible, for maintenance needs, many of which have been deferred through the 20-year history of this facility.

Your first recommendation addresses the financial solvency of the California Exposition and State Fair and states: "to meet the State's directive to maintain fiscal independence from the State's General Fund, the California Exposition and State Fair should continue to complete needed deferred maintenance and repair projects."

We concur with your recommendation and continue to seek additional sources of funds for the ongoing deferred maintenance needs. Cal Expo is presently making major expenditures on deferred maintenance projects and intends to use as much of its current reserves as is prudent to continue to reduce deferred maintenance projects. Cal Expo has also committed other revenue to address these projects.

Additionally, your first recommendation states:

"To improve the physical condition of the Cal Expo facility and to reduce the cost of repairs in the future, Cal Expo should fully implement its preventative maintenance plan".

Cal Expo has designed and prepared an automated information system for the maintenance operation which includes a preventative maintenance plan, which is not yet fully operational. This remains one of our highest priorities.

Your second recommendation states: "To more fully use its facilities during the interim between State Fairs and to maximize rental revenues, Cal Expo should complete a detailed Marketing plan to promote the use of its facilities between State Fairs".

Cal Expo has taken many steps to improve the marketing of the facilities which is reflected in significant increased revenues shown in Table 1 of your report. Although the marketing plan is not complete, the last couple of successful years have provided the experience necessary for developing the strategy and the implementation procedures".



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Page Three

Your third recommendation states: "For specific recommendations that Cal Expo should implement to improve its fiscal accounting and reporting system and provide more effective financial management, refer to pages 29 through 34 of this report".

We have noted from the report both the acknowledged improvements in the fiscal accounting and report system as well as the present findings and recommendations and find that we are in concurrence with both observations.

Again, we look forward to working with your staff as we continue to implement many of your recommendations and improve our operation.

Sincerely,

A handwritten signature in cursive script that reads "Joseph Barkett". The signature is written in dark ink and is positioned above the printed name and title.

Joseph J. Barkett  
General Manager

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps